

**POCAHONTAS AREA
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2005

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POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2004 Election)

Jann Ricklefs	President	2005
Timothy Cook	Vice President	2005
Thomas Nedved		2004
Dan Duitscher		2005
Jeff Kerns		2004
Jody Lyon		2006
Raymond Seehusen		2006

(After September, 2004 Election)

Jann Ricklefs	President	2005
Jody Lyon	Vice President	2006
Thomas Nedved		2007
Dan Duitscher		2005
Jeff Kerns		2007
Timothy Cook		2005
Raymond Seehusen		2006

SCHOOL OFFICIALS

Michael Wright	Superintendent
Diane Pattee	District Secretary/ Treasurer

Independent Auditor's Report

To The Board of Education of the
Pocahontas Area Community School District:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Pocahontas Area Community School District, Pocahontas, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of Pocahontas Area Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated September 19, 2005 on our consideration of Pocahontas Area Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 thru 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pocahontas Area Community School District's basic financial statements. We previously audited the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

September 19, 2005

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Pocahontas Area Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$5,755,240 in fiscal 2004 to \$5,750,621 in fiscal 2005, while General Fund expenditures decreased from \$6,046,650 in fiscal year 2004 to \$5,839,678 in fiscal 2005.
- General Fund revenues remained steady as increased state revenues offset tuition decreases. The decrease in expenditures was due primarily to decreases in salary and benefits. The General Fund balance decreased over \$106,000 in the prior fiscal year, a 6% decrease.
- A decline in interest rates combined with less cash available to be invested, resulted in a decrease in interest earnings in the General Fund of over \$20,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are Government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the Government-wide statements.
- The statements for governmental funds explain how basic services, such as regular and special education, were financed in the short term, as well as what remains for future spending.
- The statement for proprietary funds offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Pocahontas Area Community School District

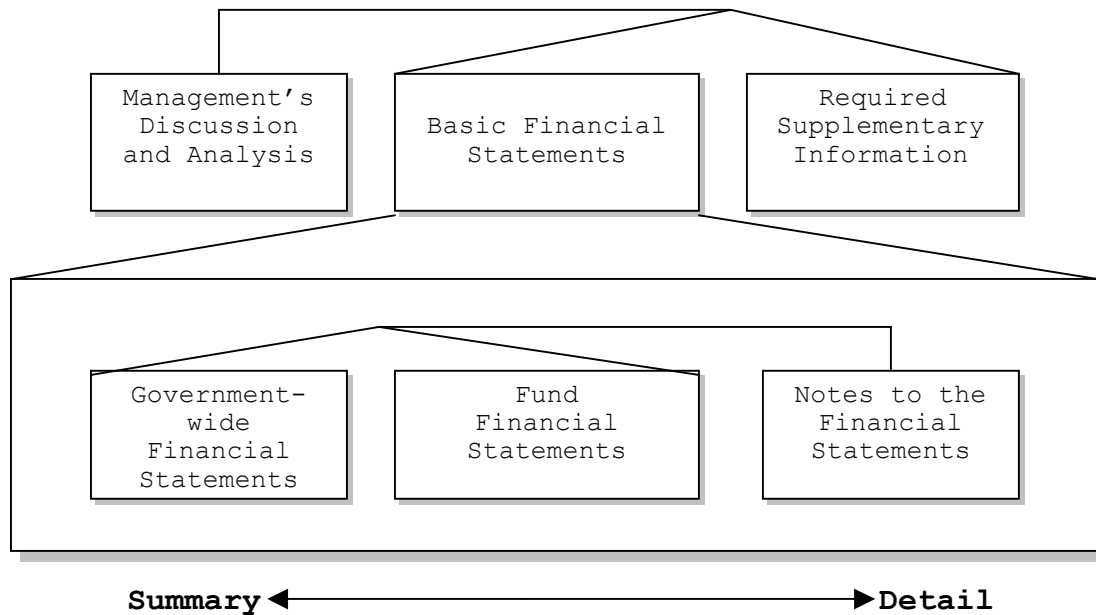


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain the remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	. Statement of net assets . Statement of activities	. Balance sheet . Statement of revenues, expenditures, and changes in fund balances	. Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows	. Statement of fiduciary net assets . Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The two Government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the Government-wide financial statements, the District's activities are divided into two categories:

- **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid, finance most of these activities.
- **Business-type activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements. The District's enterprise funds (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Fund.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-3							
Condensed Statement of Net Assets							
(expressed in thousands)							
	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
	\$	\$	\$	\$	\$	\$	
Current assets	4,956	4,836	15	18	4,971	4,854	2.41%
Capital assets	2,421	2,637	11	13	2,432	2,650	-8.23%
Total assets	7,377	7,473	26	31	7,403	7,504	-1.35%
Current liabilities	2,508	2,362	-	-	2,508	2,362	6.18%
Non-current liabilities	32	49	-	-	32	49	-34.69%
Total liabilities	2,540	2,411	-	-	2,540	2,411	5.35%
Net Assets							
Invested in capital assets, net of related debt	2,421	2,612	11	13	2,432	2,625	-7.35%
Restricted	803	698			803	698	15.04%
Unrestricted	1,613	1,752	15	18	1,628	1,770	-8.02%
Total net assets	4,837	5,062	26	31	4,863	5,093	-4.52%

The District's combined net assets were 4% less at June 30, 2005 than June 30, 2004. Depreciation recognized on fixed assets accounted for the majority of the decrease.

Changes in net assets - figure A-4 shows the changes in net assets for the year ended June 30, 2005.

Figure A-4			
Change in Net Assets			
(expressed in thousands)			
	Governmental Activities	Business-type Activities	Total School District
	\$	\$	\$
Revenues:			
Program revenues:			
Charges for service and sales	273	142	415
Operating grants, contributions and restricted interest	1,222	122	1,344
General revenues:			
Property tax	2,427	-	2,427
Unrestricted state grants	2,522	-	2,522
Unrestricted investment earnings	43	-	43
Other	151	-	151
Total revenues	<u>6,638</u>	<u>264</u>	<u>6,902</u>
Program expenses:			
Governmental activities:			
Instruction	4,187	-	4,187
Support Services	1,901	-	1,901
Non-instructional programs	3	270	273
Other expenses	774	-	774
Total expenses	<u>6,865</u>	<u>270</u>	<u>7,135</u>
Change in net assets	<u>(227)</u>	<u>(6)</u>	<u>(233)</u>

Property tax and unrestricted state grants account for 72% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 85% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$6,639,521 and expenses were \$6,864,501.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(expressed in thousands)		
	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	4,187	3,167
Support Services	1,901	1,870
Non-instructional programs	3	3
Other expenses	<u>774</u>	<u>330</u>
Totals	<u><u>6,865</u></u>	<u><u>5,370</u></u>

- The cost financed by users of the District's programs was \$273,255.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$768,834.
- The net cost of governmental activities was financed with \$2,427,585 in property tax, \$2,522,270 in state foundation aid, and \$43,434 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$263,851 and expenses were \$269,710. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted Pocahontas Area Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of 4,837,484, a four percent decrease under last year's ending fund balances of \$5,062,464. The primary reason was depreciation recognized. Fund balance decrease without depreciation was less than 1 percent.

Governmental Fund Highlights

- The District's General Fund balance decreased due to decreases in tuition received and decreased investment income.
- The District's Capital Project Fund increased as a result of the District beginning to collect local option sales tax.

Proprietary Fund Highlights

The District's Nutrition Fund decreased as a result of decreased participation and increased food costs.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 35 and 36.

Legal Budgetary Highlights

The District's receipts were \$753,377 less than budgeted receipts, a variance of 10%. The most significant variance resulted from the District receiving less in tuition than originally anticipated and reductions in property taxes and Federal grant activity.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$2.4 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 8% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$386,360.

The original cost of the District's capital assets was \$6,279,577. Governmental funds account for \$6,243,485, with the remainder of \$36,092 accounted for in the Proprietary, School Nutrition Fund.

Figure A-6
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
	\$	\$	\$	\$	\$	\$	
Land	144	144	-	-	144	144	0.00%
Site improvements	92	108	-	-	92	108	-14.81%
Buildings	1,555	1,623	-	-	1,555	1,623	-4.19%
Furniture and equipment	630	761	11	13	641	774	-17.18%
Totals	2,421	2,636	11	13	2,432	2,649	-8.19%

Long-Term Debt

At June 30, 2005, the District had paid its capital loan notes in full.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The District will have costs to incur in regards to the Rolfe building. This will affect the Physical Plant and Equipment Levy primarily.
- The District has experienced declining enrollment the past several years.
- The allowable growth rate of 4% provided by the Legislature is inadequate to meet expected cost increases.
- Iowa law requires that unsettled salary negotiations for teachers go to mandatory arbitration. Invariably arbitrated settlements are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired).
- Health insurance continues to be a very costly item to the District. Even though concessions have been made by employees in regard to deductibles, and coinsurance, other solutions need to be found. The skyrocketing cost of health care and the insurance to cover the cost will soon be unattainable by many.
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Diane Pattee, District Secretary, Pocahontas Area Community School District, 202 1st Ave SW, Pocahontas, IA 50574-1910.

Basic Financial Statements

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	2,312,050	5,514	2,317,564
Receivables:			
Property tax:			
Current year	30,467	-	30,467
Succeeding year	2,384,671	-	2,384,671
Due from other governments	70,176	-	70,176
Other receivables	68,067	-	68,067
Inventory	-	9,147	9,147
Prepaid expenses	91,194	-	91,194
Capital assets, net of accumulated depreciation	2,420,803	10,774	2,431,577
Total assets	7,377,428	25,435	7,402,863
Liabilities			
Accounts payable	96,779	-	96,779
Accrued payroll and benefits	26,199	-	26,199
Deferred revenue:			
Succeeding year property tax	2,384,671	-	2,384,671
Long-term liabilities:			
Portion due within one year:			
Early retirement payable	32,295	-	32,295
Total liabilities	2,539,944	-	2,539,944
Net assets			
Invested in capital assets, net of related debt	2,420,803	10,774	2,431,577
Restricted for:			
Internal services	105,077	-	105,077
Management levy	122,016	-	122,016
Student activities	61,690	-	61,690
Physical plant and equipment levy	359,754	-	359,754
Capital projects	155,358	-	155,358
Unrestricted	1,612,786	14,661	1,627,447
Total net assets	4,837,484	25,435	4,862,919

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues					
		Charges for	Operating Grants, Contributions and Restricted Interest	Governmental	Business-Type	Total
Expenses	Service			Activities	Activities	
\$	\$	\$	\$	\$	\$	\$
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	2,549,737	224,508	262,584	(2,062,645)	-	(2,062,645)
Special instruction	961,958	48,336	240,641	(672,981)	-	(672,981)
Other instruction	675,106	-	244,198	(430,908)	-	(430,908)
	4,186,801	272,844	747,423	(3,166,534)	-	(3,166,534)
Support services:						
Student services	216,071	-	-	(216,071)	-	(216,071)
Instructional staff services	263,801	-	-	(263,801)	-	(263,801)
Administration services	587,190	-	-	(587,190)	-	(587,190)
Operation and maintenance of plant services	917,113	-	9,037	(908,076)	-	(908,076)
Transportation services	331,102	411	20,683	(310,008)	-	(310,008)
	2,315,277	411	29,720	(2,285,146)	-	(2,285,146)
Non-instructional programs:						
Community service operations	2,790	-	-	(2,790)	-	(2,790)
Other expenditures:						
AEA flowthrough	222,156	-	222,156	-	-	-
Long-term debt services	612	-	-	(612)	-	(612)
Facilities acquisition and construction	(167,704)	-	222,411	390,115	-	390,115
Depreciation (unallocated)*	304,569	-	-	(304,569)	-	(304,569)
	359,633	-	444,567	84,934	-	84,934
Total governmental activities	6,864,501	273,255	1,221,710	(5,369,536)	-	(5,369,536)

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues					
		Charges for	Operating Grants, Contributions and Restricted	Governmental	Business-Type	
	Expenses	Service	Interest	Activities	Activities	Total
	\$	\$	\$	\$	\$	\$
Business-Type activities:						
Non-instructional programs:						
Nutrition services	269,710	142,196	121,655	-	(5,859)	(5,859)
Total	<u>7,134,211</u>	<u>415,451</u>	<u>1,343,365</u>	<u>(5,369,536)</u>	<u>(5,859)</u>	<u>(5,375,395)</u>
General revenues:						
Property tax levied for:						
General purposes				1,991,590	-	1,991,590
Management				94,927	-	94,927
Capital outlay				185,710	-	185,710
Local option sales tax				155,358	-	155,358
Unrestricted state grants				2,522,270	-	2,522,270
Unrestricted investment earnings				43,434	-	43,434
Other				<u>151,267</u>	-	<u>151,267</u>
Total general revenue				<u>5,144,556</u>	-	<u>5,144,556</u>
Change in net assets				(224,980)	(5,859)	(230,839)
Net assets beginning of year				<u>5,062,464</u>	<u>31,294</u>	<u>5,093,758</u>
Net assets end of year				<u>4,837,484</u>	<u>25,435</u>	<u>4,862,919</u>

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2005

	General	Physical Plant and Equipment Levy	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	1,709,353	372,806	141,251	88,640	2,312,050
Receivables:					
Property tax:					
Current year	26,703	2,490	-	1,274	30,467
Succeeding year	2,038,296	186,375	-	160,000	2,384,671
Due from other governments	56,069	-	14,107	-	70,176
Other receivables	65,469	-	-	2,598	68,067
Prepaid expenses	-	-	-	91,194	91,194
Total assets	<u>3,895,890</u>	<u>561,671</u>	<u>155,358</u>	<u>343,706</u>	<u>4,956,625</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	81,237	15,542	-	-	96,779
Accrued payroll and benefits	26,199	-	-	-	26,199
Deferred revenue:					
Succeeding year property tax	2,038,296	186,375	-	160,000	2,384,671
Total liabilities	<u>2,145,732</u>	<u>201,917</u>	<u>-</u>	<u>160,000</u>	<u>2,507,649</u>
Fund balances:					
Reserved for internal services	105,077	-	-	-	105,077
Reserved for capital projects	-	-	155,358	-	155,358
Unreserved	1,645,081	359,754	-	183,706	2,188,541
Total fund balances	<u>1,750,158</u>	<u>359,754</u>	<u>155,358</u>	<u>183,706</u>	<u>2,448,976</u>
Total liabilities and fund balances	<u>3,895,890</u>	<u>561,671</u>	<u>155,358</u>	<u>343,706</u>	<u>4,956,625</u>

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2005

Total fund balances of governmental funds (Exhibit C)	\$ 2,448,976
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	2,420,803
Long-term liabilities, including notes payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(32,295)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 4,837,484</u></u>

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2005

	General	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	1,991,590	185,710	155,358	-	94,927	2,427,585
Tuition	272,844	-	-	-	-	272,844
Other	237,029	186,828	-	-	224,131	647,988
State sources	3,044,003	153	-	-	79	3,044,235
Federal sources	205,155	41,714	-	-	-	246,869
Total revenues	<u>5,750,621</u>	<u>414,405</u>	<u>155,358</u>	<u>-</u>	<u>319,137</u>	<u>6,639,521</u>
Expenditures:						
Current:						
Instruction:						
Regular instruction	2,443,065	-	-	-	98,598	2,541,663
Special instruction	961,958	-	-	-	-	961,958
Other instruction	440,048	-	-	-	235,058	675,106
	<u>3,845,071</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>333,656</u>	<u>4,178,727</u>
Support services:						
Student services	211,225	-	-	-	4,846	216,071
Instructional staff services	263,801	-	-	-	-	263,801
Administration services	581,042	-	-	-	6,148	587,190
Operation and maintenance of plant services	476,463	414,777	-	-	25,873	917,113
Transportation services	237,130	-	-	-	14,952	252,082
	<u>1,769,661</u>	<u>414,777</u>	<u>-</u>	<u>-</u>	<u>51,819</u>	<u>2,236,257</u>
Non-instructional programs:						
Community service operations	<u>2,790</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,790</u>

(continued)

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2005

	General	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$	\$
Expenditures (continued):						
Other expenditures:						
AEA flowthrough	222,156	-	-	-	-	222,156
Long-term debt:						
Principal	-	-	-	24,457	-	24,457
Interest	-	-	-	612	-	612
Facilities acquisition and construction	-	-	-	-	-	-
	<u>222,156</u>	<u>-</u>	<u>-</u>	<u>25,069</u>	<u>-</u>	<u>247,225</u>
Total expenditures	<u>5,839,678</u>	<u>414,777</u>	<u>-</u>	<u>25,069</u>	<u>385,475</u>	<u>6,664,999</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>(89,057)</u>	<u>(372)</u>	<u>155,358</u>	<u>(25,069)</u>	<u>(66,338)</u>	<u>(25,478)</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	25,069	17,338	42,407
Operating transfers out	<u>(17,338)</u>	<u>(25,069)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(42,407)</u>
	<u>(17,338)</u>	<u>(25,069)</u>	<u>-</u>	<u>25,069</u>	<u>17,338</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures and other financing uses	<u>(106,395)</u>	<u>(25,441)</u>	<u>155,358</u>	<u>-</u>	<u>(49,000)</u>	<u>(25,478)</u>
Fund balances beginning of year	<u>1,856,553</u>	<u>385,195</u>	<u>-</u>	<u>-</u>	<u>232,706</u>	<u>2,474,454</u>
Fund balances end of year	<u><u>1,750,158</u></u>	<u><u>359,754</u></u>	<u><u>155,358</u></u>	<u><u>-</u></u>	<u><u>183,706</u></u>	<u><u>2,448,976</u></u>

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances - Governmental Funds
 to the Statement of Activities

Year ended June 30, 2005

Net change in fund balances - total governmental funds (Exhibit E) \$ (25,478)

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Expenditures for capital assets	\$ 167,704	
Depreciation expense	<u>(383,589)</u>	(215,885)

Early retirement expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds: (8,074)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 24,457

Change in net assets of governmental activities (Exhibit B) \$ (224,980)

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Fund

Year ended June 30, 2005

	School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for services	<u>142,196</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	80,784
Benefits	43,455
Supplies	141,940
Property	760
Depreciation	<u>2,771</u>
Total operating expenses	<u>269,710</u>
Operating (loss)	<u>(127,514)</u>
Non-operating revenues:	
State sources	12,037
Federal sources	109,289
Interest income	<u>329</u>
	<u>121,655</u>
Changes in net assets	(5,859)
Net assets beginning of year	<u>31,294</u>
Net assets end of year	<u><u>25,435</u></u>

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Fund

Year ended June 30, 2005

	School Nutrition
	\$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	142,305
Cash payments to employees for services	(124,239)
Cash payments to suppliers for goods or services	(128,928)
Net cash (used in) operating activities	(110,862)
Cash flows from non-capital financing activities:	
State grants received	12,037
Federal grants received	86,371
Net cash provided by non-capital financing activities	98,408
Cash flows from investing activities:	
Interest on investments	329
Net (decrease) in cash and cash equivalents	(12,125)
Cash and cash equivalents beginning of year	17,639
Cash and cash equivalents end of year	5,514
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating (loss)	(127,514)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:	
Depreciation	2,771
Decrease in other receivables	110
Commodities used	22,918
(Increase) in inventory	(9,147)
	(110,862)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash	5,514

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received federal commodities valued at \$22,918.

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2005

	Scholarship Fund
	<u>\$</u>
Assets	
Cash and pooled investments	<u>1,167</u>
Total assets	<u>1,167</u>
Net Assets	
Reserved for scholarships	<u><u>1,167</u></u>

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2005

	Private Purpose Trust Fund
	\$
Additions:	
Local sources:	
Miscellaneous	1,000
Total additions	1,000
Deductions:	
Support services:	
Scholarships	1,075
Change in net assets	(75)
Net assets beginning of year	1,242
Net assets end of year	1,167

See notes to financial statements.

POCHONTAS AREA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The Pocahontas Area Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Pocahontas, Rolfe, Havelock & Plover, Iowa, and agricultural territory in Pocahontas and Palo Alto Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Pocahontas Area Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The Pocahontas Area Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Pocahontas County Assessor's Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statements of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Physical Plant and Equipment Levy is used for the acquisition of capital assets (over \$500) and the maintenance and purchase of land improvements and facilities.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The Government-wide proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa and grants from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the Government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2005.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2005.

(3) **Capital Assets**

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	<u>143,945</u>	<u>-</u>	<u>-</u>	<u>143,945</u>
Capital assets being depreciated:				
Site Improvements	319,354	-	-	319,354
Buildings	3,445,085	-	-	3,445,085
Furniture and Equipment	<u>2,167,397</u>	<u>167,704</u>	<u>-</u>	<u>2,335,101</u>
Total capital assets being depreciated	<u>5,931,836</u>	<u>167,704</u>	<u>-</u>	<u>6,099,540</u>
Less accumulated depreciation for:				
Site Improvements	210,627	15,968	-	226,595
Buildings	1,822,359	68,902	-	1,891,261
Furniture and Equipment	<u>1,406,107</u>	<u>298,719</u>	<u>-</u>	<u>1,704,826</u>
Total accumulated depreciation	<u>3,439,093</u>	<u>383,589</u>	<u>-</u>	<u>3,822,682</u>
Total capital assets being depreciated, net	<u>2,492,743</u>	<u>(215,885)</u>	<u>-</u>	<u>2,276,858</u>
Governmental activities, capital assets, net	<u>2,636,688</u>	<u>(215,885)</u>	<u>-</u>	<u>2,420,803</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	53,281	0	17,189	36,092
Less accumulated depreciation	<u>39,736</u>	<u>2,771</u>	<u>17,189</u>	<u>25,318</u>
Business type activities capital assets, net	<u>13,545</u>	<u>(2,771)</u>	<u>-</u>	<u>10,774</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Support services:

Transportation	79,020
Unallocated	<u>304,569</u>
	<u>383,589</u>

Business Type activities

Food service operations	<u>2,771</u>
	<u>2,771</u>

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$207,021, \$208,602, and \$210,484 respectively, equal to the required contributions for each year.

(5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$222,156 for year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2005 is as follows:

	Construction Loan
Balance beginning of year	\$24,457
Additions	-
Reductions	<u>24,457</u>
Balance end of year	<u>\$-</u>

During the year ended June 30, 1995 the District borrowed \$450,000 from the Pocahontas State Bank to help finance the construction of an industrial technologies addition under section 297.36 of the Code of Iowa. The District pledged the proceeds of its PPEL levy to pay the interest and principal when due.

The loan has an interest rate of 5% and shall be paid in semi-annual installments of \$28,866 which includes both principal and interest. The loan is for ten years and the final payment was made in October 20, 2004.

(7) Commitment

The District accepted a bid of \$84,340 for demolition of a portion of the Rolfe attendance center. Demolition is to take place in the fall of 2005. This will be from insurance proceeds received by the district.

(8) Interfund Transfers

The detail of Interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue: Student Activity	General	\$17,338
Debt Service	Special Revenue: Physical Plant and Equipment Levy	<u>25,069</u>
Total		<u>\$42,407</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

Required Supplementary Information

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Receipts:						
Local sources	3,348,575	142,634	3,491,209	4,121,681	4,121,681	(630,472)
State sources	3,044,235	12,037	3,056,272	3,124,417	3,124,417	(68,145)
Federal sources	246,869	86,371	333,240	388,000	388,000	(54,760)
Total receipts	6,639,679	241,042	6,880,721	7,634,098	7,634,098	(753,377)
Disbursements:						
Instruction	4,151,585	-	4,151,585	6,184,441	6,184,441	2,032,856
Support services	2,236,257	-	2,236,257	3,248,801	3,248,801	1,012,544
Non-instructional programs	2,790	253,167	255,957	347,899	347,899	91,942
Other expenditures	247,225	-	247,225	358,729	358,729	111,504
Total disbursements	6,637,857	253,167	6,891,024	10,139,870	10,139,870	3,248,846
Excess (deficiency) of receipts over (under) disbursements	1,822	(12,125)	(10,303)	(2,505,772)	(2,505,772)	2,495,469
Other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,822	(12,125)	(10,303)	(2,505,772)	(2,505,772)	2,495,469
Balance beginning of year	2,310,228	17,639	2,327,867	1,916,261	1,916,261	411,606
Balance end of year	2,312,050	5,514	2,317,564	(589,511)	(589,511)	2,907,075

See accompanying independent auditor's report.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Type		
	Cash	Accrual	Modified
	Basis	Adjustments	Accrual
	\$	\$	\$
Revenues	6,639,679	(21,213)	6,639,521
Expenditures	6,637,857	35,072	6,664,999
Net	1,822	(56,285)	(25,478)
Other financing sources (uses)	-	-	-
Beginning fund balances	2,310,228	164,226	2,474,454
Ending fund balances	2,312,050	107,941	2,448,976

	Proprietary Fund Type		
	Enterprise		
	Cash	Accrual	Accrual
	Basis	Adjustments	Basis
	\$	\$	\$
Revenues	241,042	22,809	263,851
Expenditures	253,167	16,543	269,710
Net	(12,125)	6,266	(5,859)
Beginning fund balances	17,639	13,655	31,294
Ending fund balances	5,514	19,921	25,435

See accompanying independent auditor's report.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year-end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2005, disbursements did not exceed the amount budgeted in any of the four functions. The District did not exceed the General Fund unspent authorized budget.

Other Supplementary Information

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2005

	Management	Student Activity	Total
	\$	\$	\$
Assets			
Cash and pooled investments	29,185	59,455	88,640
Property tax receivable:			
Current year	1,274	-	1,274
Succeeding year	160,000	-	160,000
Other receivables	363	2,235	2,598
Prepaid expenses	91,194	-	91,194
Total assets	282,016	61,690	343,706
Liabilities and Fund Equity			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	160,000	-	160,000
	160,000	-	160,000
Fund equity:			
Unreserved, undesignated fund balance	122,016	61,690	183,706
	122,016	61,690	183,706
Total liabilities and fund equity	282,016	61,690	343,706

See accompanying independent auditor's report.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Nonmajor Special Revenue Funds

Year ended June 30, 2005

	Management	Student Activity	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	94,927	-	94,927
Other	2,674	221,457	224,131
State sources	79	-	79
Total revenues	<u>97,680</u>	<u>221,457</u>	<u>319,137</u>
Expenditures:			
Instruction:			
Regular instruction	98,598	-	98,598
Co-curricular instruction	-	235,058	235,058
Support services:			
Student services	4,846	-	4,846
Administration services	6,148	-	6,148
Plant operation and maintenance	25,873	-	25,873
Student transportation	14,952	-	14,952
Total expenditures	<u>150,417</u>	<u>235,058</u>	<u>385,475</u>
(Deficiency) of revenues (under) expenditures	<u>(52,737)</u>	<u>(13,601)</u>	<u>(66,338)</u>
Other financing sources (uses):			
Operating transfers in	<u>-</u>	<u>17,338</u>	<u>17,338</u>
Excess (deficiency) of revenues over (under) expenditures and other financing uses	<u>(52,737)</u>	<u>3,737</u>	<u>(49,000)</u>
Fund balances beginning of year	<u>174,753</u>	<u>57,953</u>	<u>232,706</u>
Balance end of year	<u><u>122,016</u></u>	<u><u>61,690</u></u>	<u><u>183,706</u></u>

See accompanying independent auditor's report.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Concessions	112	450	562	-
Computer Supplies	717	-	-	717
Graduated Classes	5,458	213	2,035	3,636
Class of 2005	4,286	65	2,207	2,144
Class of 2006	889	15,094	12,199	3,784
Class of 2007	343	455	228	570
Class of 2008	-	445	138	307
Towel Fee	697	-	-	697
Locker Rent	2,656	395	305	2,746
Board of Education	326	921	1,124	123
Mock Trial	3,802	310	1,587	2,525
Pop/Juice Rolfe Center	28	-	-	28
Pop/Juice - Vending	745	13,300	12,627	1,418
Restroom - Vending	182	-	-	182
Administrative Resale	210	-	-	210
Vocal Music	1,074	6,383	5,024	2,433
Instrumental Music	407	4,561	4,024	944
Band Uniforms	280	400	7	673
Band Insurance	686	-	-	686
Drill Team	3,187	7,388	9,337	1,238
Cheerleader Trip Fund	-	11,381	11,091	290
Football	-	11,025	11,025	-
Activity Trips	85	123	-	208
Cheerleaders	225	3,895	4,012	108
Weight Training	187	-	-	187
Golf	-	1,128	1,128	-
Basketball	-	14,742	14,742	-
Boys Basketball Camp	130	3,255	3,193	192
Volleyball	-	4,011	4,011	-
Softball/Baseball	-	19,680	19,500	180
Softball Trips	355	1,071	783	643
Track	-	7,936	7,916	20
Track Trip - Boys	1,267	550	837	980
Track Trip - Girls	1,498	493	270	1,721
Cross Country	182	651	833	-
Wrestling	-	5,387	5,387	-
Activity Tickets	-	7,904	7,904	-
Activity Tickets/Senior Citizens	532	170	-	702
Wrestling Mothers	1,850	9,062	6,967	3,945
Football Camp	1,452	4,128	5,248	332
Athletic Resale	546	-	-	546
Volleyball Camp	1,965	1,006	2,523	448

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
District Football	-	128	128	-
Marketing Class	108	-	-	108
Cross Country Special Fund	-	-	-	-
Trading Post Store	2,039	19,283	19,214	2,108
JH Student Council	1,790	-	901	889
Science Club	47	-	-	47
Art Club	485	-	52	433
Mystery Photo Contest	50	-	-	50
Student Council	-	591	591	-
FFA	3,675	24,783	28,458	-
Home Ec Club	-	244	202	42
Home Ec Resale	104	425	392	137
Spanish Club	192	-	-	192
Annual	1,647	10,853	10,448	2,052
Newspaper	7	-	-	7
Dramatics	601	1,027	610	1,018
National Honor Society	-	450	351	99
Baseball Mothers	2,000	7,579	3,568	6,011
Jr High Math	93	-	-	93
Softball Parents	-	2,939	-	2,939
Energy and Power Class	300	-	-	300
Swing Choir	251	-	-	251
Mentoring Program	50	-	-	50
Task Force Fund	171	258	425	4
Jump Rope for Heart	1,007	3,167	3,166	1,008
HS Take Charge for Education	298	385	468	215
Special Education	43	-	-	43
MS Take Charge for Education	-	226	15	211
Carnival	2,926	1,455	1,196	3,185
After Prom Party	-	5,931	4,896	1,035
Interest	3,710	1,093	1,203	3,600
	<u>57,953</u>	<u>238,795</u>	<u>235,058</u>	<u>61,690</u>
Total	<u>57,953</u>	<u>238,795</u>	<u>235,058</u>	<u>61,690</u>

See accompanying independent auditor's report.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues

All Governmental Funds

	Modified Accrual Basis			
	2005	2004	2003	2002
	\$	\$	\$	\$
Local sources:				
General	1,991,590	2,207,600	2,145,756	2,004,484
Special revenue	280,637	309,574	335,247	331,484
Capital projects	155,358	-	-	-
	<u>2,427,585</u>	<u>2,517,174</u>	<u>2,481,003</u>	<u>2,335,968</u>
State sources:				
General	3,044,003	2,770,389	2,891,496	2,962,459
Special revenue	232	527	1,881	1,740
	<u>3,044,235</u>	<u>2,770,916</u>	<u>2,893,377</u>	<u>2,964,199</u>
Federal sources:				
General	205,155	208,871	259,370	237,483
Special revenue	41,714	-	-	-
	<u>246,869</u>	<u>208,871</u>	<u>259,370</u>	<u>237,483</u>
Total	<u>5,718,689</u>	<u>5,496,961</u>	<u>5,633,750</u>	<u>5,537,650</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

To the Board of Education of the
Pocahontas Area Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Pocahontas Area Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 19, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pocahontas Area Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 05-I-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pocahontas Area Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pocahontas Area Community School District and other parties to whom Pocahontas Area Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Pocahontas Area Community School District during the course of our audit.

Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

September 19, 2005

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

05-I-A Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We have noted the duties of the individual include: 1) preparation of checks, signing of checks, recording the transactions in the journals, and reconciling the bank; 2) receiving cash receipts, preparing the receipt, making up the bank deposit, and recording the transaction in the journals.

Recommendation - We realize with a limited number of administrative employees, segregation of duties to eliminate incompatible duties is difficult. We also realize the job description, as defined by the Code of Iowa, of certain members of the administrative staff make the segregations even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response - We will investigate possible alternatives to this situation.

Conclusion - Response accepted.

05-I-B Outside bank accounts - We noted the existence of bank accounts that are being held in the District's name that have not previously been included in the District's financial records.

Recommendation - We recommend that the District maintain control of these funds and include them in the District's Trust and Agency funds or have the accounts removed from the District's name and federal identification number.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

05-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

05-II-B Certified Budget - Disbursements for the year ended June 30, 2005, did not exceed the amounts budgeted.

05-II-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

05-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Required Statutory Reporting:
(continued) :

- 05-II-E Business Transactions - No business transactions between the District and District officials or employees were noted.
- 05-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 05-II-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 05-II-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 05-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 05-II-J Certified Enrollment - The number of basic resident students reported to the Iowa Department of Education on line 7 of the Certified Enrollment Certification Form for September 2004 was overstated. The District's certified enrollment count included 10 additional resident students on line 1. This resulted in overstating the total actual enrollment at line 7 by 10 students.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management.

Conclusion - Response accepted.